



June 25, 2019

Honorable Mayor and Council Members  
City of Rye, New York  
City Hall  
1051 Boston Post Road  
Rye, New York 10580

Dear Honorable Mayor and Council Members:

We are pleased to present this report related to our audit of the financial statements of the City of Rye, New York (City) as of and for the year ended December 31, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the Honorable Mayor, Council Members, and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of continued service to the City.

Very truly yours,

BST & Co. CPAs, LLP

Brendan K. Kennedy, Partner

BKK/dmc



## City of Rye, New York

### Communication With Those Charged With Governance Year Ended December 31, 2018

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

#### **Our Responsibilities With Regard to the Financial Statement Audit**

Our responsibilities under auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated January 9, 2019. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

#### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

#### **Accounting Policies and Practices**

##### **Preferability of Accounting Policies and Practices**

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

##### **Adoption of, or Change in, Accounting Policies**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. Following is a description of a new accounting standard that was adopted by the City for the purposes of complying with accounting principles generally accepted in the United States of America (U.S. GAAP):

Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement established financial reporting standards for other postemployment benefits (OPEB) plans for state and local governments. This standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. This statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources, and expense/expenditures, as well as identifying the methods and assumptions required to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

# City of Rye, New York

## Communication With Those Charged With Governance Year Ended December 31, 2018

### **Accounting Policies and Practices - Continued**

#### **Adoption of, or Change in, Accounting Policies - Continued**

Additionally, this statement lays out requirements for additional note disclosures and required supplementary information. The adoption of this statement is applied retroactively. As a result of the adoption of this statement, the City's December 31, 2017 governmental activities and business-type activities net position decreased by \$64,709,127 and \$3,300,429, respectively.

#### **Significant or Unusual Transactions**

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### **Management's Judgments and Accounting Estimates**

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Exhibit A, Summary of Significant Accounting Estimates.

### **Audit Adjustments**

Audit adjustments proposed by us and recorded by the City are shown on the attached Exhibit B, Summary of Recorded Audit Adjustments.

### **Uncorrected Misstatements**

Uncorrected misstatements are summarized in the attached Exhibit C, Summary of Uncorrected Misstatements.

### **Disagreements with Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

### **Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

### **Significant Issues Discussed with Management**

No significant issues arising from the audit were discussed with or the subject of correspondence with management.



# City of Rye, New York

## Communication With Those Charged With Governance Year Ended December 31, 2018

### **Significant Difficulties Encountered in Performing the Audit**

We did not encounter any significant difficulties in dealing with management during the audit.

### **Significant Written Communications Between Management and Our Firm**

Copies of significant written communications between our firm and the management of the City, including the representation letter provided to us by management, are attached as Exhibit D.



## City of Rye, New York

### Summary of Significant Accounting Estimates Year Ended December 31, 2018

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's December 31, 2018 financial statements:

<b>Estimate</b>	<b>Accounting Policy</b>	<b>Estimation Process</b>
<b>Other Postemployment Benefits (OPEB)</b>	An accrual is made in the financial statements for benefits earned primarily by employer funded health insurance that will be paid subsequent to the qualifying employees' service with the City.	The estimate is developed with the assistance of an actuarial firm using assumptions applied to census and plan information provided by the City.
<b>Depreciation Expense</b>	At the time an asset is inventoried, its useful life and acquisition date are determined in compliance with the capital asset policy, and entered into the fixed asset system accordingly. The depreciation expense is recorded annually for financial statement preparation.	All capital assets are depreciated using the straight-line method over the estimated useful lives determined.
<b>Allowance for Uncollectible Receivables</b>	Receivables are reduced to their net realizable value. An allowance for uncollectible receivables is recorded as a contra asset and a corresponding expense.	Management will perform a calculation to determine what portion of the outstanding receivable balances may be uncollectible.
<b>Compensated Absences</b>	The City recognizes the estimated liability for unused vacation and compensated time.	Unused vacation and compensated time is aggregated, and current employee rates are applied to generate the extended liability.
<b>Claims Payable</b>	An accrual for claims payable is recorded when the contingent obligation is determined to be both probable and estimable.	Management reviews responses from the City's legal counsel to determine cases that are both probable and possible. These cases are the basis for determining the claims payable estimate along with the footnote disclosure.

## City of Rye, New York

### Summary of Significant Accounting Estimates Year Ended December 31, 2018

Estimate	Accounting Policy	Estimation Process
<b>Self-Insured Property and Liability Insurance Program</b>	An accrual is made in the financial statements for the ultimate cost of claims that have been reported, but not settled, and of claims that have been incurred but not reported.	The estimate is developed with the assistance of an actuarial firm using historical data provided by management and information obtained from other insurance industry sources.
<b>Net Pension Liability</b>	The City recognizes its proportionate share of the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System net pension liabilities and the related deferred inflows and outflows of resources.	The City's net pension liabilities are estimated by the New York State Office of the State Comptroller using census data supplied by participating employers and various actuarial assumptions, including but not limited to, rate of return, mortality, and inflation. The City's proportionate percentage of the liabilities is determined on an annual basis.

We have evaluated management's significant accounting estimates noted above as part of our audit and concluded that management's estimates and the estimation process appear reasonable in the context of the financial statements taken as a whole.

## City of Rye, New York

### Summary of Recorded Audit Adjustments Year Ended December 31, 2018

Description	Effect - Increase (Decrease)				
	Assets/Deferred Outflows of Resources	Liabilities/Deferred Inflows of Resources	Fund Balance/ Net Position	Revenues	Expenditures/ Expenses
<b>General Fund</b>					
To adjust deferred tax revenues	\$ -	\$ 220,420	\$ -	\$ (220,420)	\$ -
<b>Risk Retention Fund</b>					
To adjust accrued liabilities to actuarial estimate	-	84,756	-	-	84,756
<b>Building and Vehicle Maintenance Fund</b>					
To adjust OPEB	-	3,076,694	(2,801,099)	-	275,595
To amortize premium on refunding	-	(56,410)	-	-	(56,410)
To adjust net pension liability	56,092	61,552	-	-	5,460
<b>Golf Club Fund</b>					
To amortize deferred outflow of resources	(11,671)	-	-	-	11,671
To adjust net pension liability	43,627	47,874	-	-	4,247
To adjust OPEB	-	2,814,947	(2,636,364)	-	178,583
To amortize discount on refunding bonds	(2,608)	-	-	-	2,608
To amortize premium on refunding	-	(12,377)	-	-	(12,377)
<b>Boat Basin Fund</b>					
To adjust OPEB	-	720,712	(664,065)	-	56,647
To adjust net pension liability	9,349	10,259	-	-	910
<b>Capital Projects Fund</b>					
To adjust revenues	-	608,405	-	(608,405)	-
<b>Government-wide</b>					
To adjust OPEB	-	67,745,666	(61,908,028)	-	5,837,638
To adjust net pension liability	514,174	564,227	-	-	50,053
Total Statement of Activities Effect			(7,268,206)	\$ (828,825)	\$ 6,439,381
Total Statement of Net Position Effect	\$ 608,963	\$ 75,886,725	\$ (75,277,762)		

**City of Rye, New York**

**Summary of Uncorrected Misstatements  
Year Ended December 31, 2018**

During the course of our audit, we accumulated an uncorrected misstatement that was determined by management to be immaterial, both individually and in the aggregate, to the statement of net position, statement of activities and to the related financial statement disclosures. Following is a summary of the uncorrected misstatement:

Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Fund Balance	Revenue	Expenditures
<b>Golf Club Fund</b>					
To adjust depreciation	\$ -	\$ -	\$ 147,600	\$ -	\$ 147,600
Total Statement of Activities Effect	-	-	(147,600)	-	\$ 147,600
Total Statement of Net Position Effect	\$ -	\$ -	\$ -		



**City of Rye, New York**

Significant Written Communications  
Between Management and our Firm  
Year Ended December 31, 2018

Representation Letter





OFFICE OF THE CITY MANAGER  
CITY OF RYE

June 25, 2019

BST & Co. CPAs, LLP  
26 Computer Drive West  
Albany, New York 12205

This representation letter is provided in connection with your audit of the basic financial statements of the City of Rye, New York (City) as of and for the year ended December 31, 2018, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of June 25, 2019:

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 9, 2019, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with jointly governed organization in which the City participates, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. We agree with the findings of specialists in evaluating our obligations for postemployment benefits, self-insured property and liability insurance program and our net pension liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
9. We have not completed the process of evaluating the effect that will result from adopting the guidance in Governmental Accounting Standards Board (GASB) Statements Nos. 83, 84, 87, 88, 89, and 90 as disclosed in Note 5 to the financial statements. The City is, therefore, unable to disclose the effect that adopting the guidance of these GASB Statements will have on its financial position and the results of operations when such guidance is adopted.
10. We believe the actuarial assumptions and methods used to measure pension, self-insured property and liability insurance liability and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
11. We agree with the restatement of the previously issued financial statements discussed in Note 1 of the financial statements due to the implementation of GASB 75.
12. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private, or to special assessment bond holders, that is not disclosed in the financial statements.
13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
14. As of and for the year ended December 31, 2018, we believe that the effects of the uncorrected misstatement aggregated by you and summarized below is immaterial, both individually and in the aggregate, to the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Fund Balance	Revenue	Expenditures
<b>Golf Club Fund</b>					
To adjust depreciation	\$ -	\$ -	\$ 147,600	\$ -	\$ 147,600
Total Statement of Activities Effect	-	-	(147,600)	-	147,600
Total Statement of Net Position Effect	\$ -	\$ -	\$ -		

*Information Provided*

15. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;

Additional information that you have requested from us for the purpose of the audit;

- b. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence; and
  - c. Minutes of the meetings of the governing boards and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
16. All transactions have been recorded in the accounting records and are reflected in the financial statements.
17. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
18. We have no knowledge of allegations of fraud or suspected fraud affecting the City's financial statements involving:
- a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
19. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.
20. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing the financial statements.
21. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
22. We have disclosed to you the identity of the City's related parties and all the related-party relationships and transactions of which we are aware.
23. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize and report financial data.
24. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
25. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

*Supplementary Information*

26. With respect to the supplementary information presented in relation to the financial statements as a whole:
- a. We acknowledge our responsibility for the presentation of such information.

- b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

*Required Supplementary Information*

27. With respect to Management's Discussion and Analysis, schedule of other postemployment benefits liability and OPEB as a percentage of covered payroll, the schedule of proportionate net pension liability, and the schedule of local government contributions presented as required by the Government Accounting Standards Board to supplement the basic financial statements:

- a. We acknowledge our responsibility for the presentation of such required supplementary information.
- b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
- c. The methods of measurement and presentation have changed from those used in the prior period due to the adoption of GASB 75 as disclosed in Note 1 of the financial statements.

*Compliance Considerations*

28. In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

- a. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- b. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the City.
- c. Has identified and disclosed to you all instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- d. Has identified and disclosed to you all instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.
- e. Has identified and disclosed to you all instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.
- f. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- g. Acknowledges its responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.
  - h. Has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements; or abuse that you report.
  - i. Has a process to track the status of audit findings and recommendations.
  - j. Has identified to you previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.
  - k. Has provided views on your reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.
29. Acknowledges its responsibilities as they relate to non-audit services performed by you, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

Very truly yours,

CITY OF RYE, NEW YORK



Marcus A. Serrano, City Manager



Joseph S. Fazzino, Deputy Comptroller